



(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2020/2021 ACADEMIC YEAR

THIRD YEAR THIRD SEMESTER

MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: ECO 205/ECO211

COURSE TITLE: INTERMEDIATE MACROECONOMICS

DATE: 7-10-2021

TIME: 2 hours

KIBUCO observes ZERO tolerance to examination cheating

This Paper Consists of 2 Printed Pages. Please Turn Over. ►

Answer Question One in Section A and Any other TWO (2) Questions in Section B

QUESTION ONE

(b) Differentiate between the following concepts:

(i) Endogenous and exogenous variables [2marks]

(ii) Stock and flow variables [2marks]

(iii) You have been provided with the following data which describes a country's economy.

$$Y=C+I+G$$

$$C= 120+0.5(Y-T)$$

$$I= 100-10r$$

$$G=60$$

$$T = 30$$

$$M/P = Y - 20r$$

$$P = \text{sh.}2$$

$$M = \text{sh.}800$$

Derive the IS-LM curves and determine the equilibrium interest rate and income. [16 marks]

(d) A closed economy with government give a consumption function as

$C = 400 + 0.75Y$, investment (I) = Ks. 500, government expenditure (G) = ks.300 and tax revenue (T) = ks. 300

Calculate

(i) Equilibrium income [4marks]

(ii) Equilibrium consumption [4marks]

(e) How relevant are economic models to the real world application [2marks]

QUESTION TWO

(a) (i) Explain the concept of investment multiplier [2 marks]

(b) Given country's propensity to consume is 80% of incomes earned. Calculate investment multiplier [4 marks]

(c) Explain key policies that can reduce youth unemployment in Kenya [9 marks]

QUESTION THREE

(a) Tax (t), saving (s) and consumptions are viewed to depend on national income (Y)

(i) Derive functions of Tax, consumption and savings as depended on income Y. [6 marks]

Show a graphical relationship between t, C and S in an expenditure versus Y graph. [4 marks]

(b) A country has an income of sh. 100 billion and MPC is 75%. The country wants to double its income by making one short investment.

Calculate the amount of investment to undertake. [5 marks]

QUESTION FOUR

(a) With well labelled graphical model, explain how an expansionary fiscal policy influences income in an open economy. [5 marks]

(b) Define inflation and identify six adverse effects in a country. [5 marks]

(c) Suggest monetary policy measures that can reduce inflationary pressure in an economy

[5 marks]

QUESTION FIVE

(a) Given the Keynesian condition for equilibrium, national income, is $C + I + G = C + I + T = Y$

And that $C = a + b Y_d$ where $T_d = Y - T$

Derive an expression of the tax multiplier. [6 marks]

(b) Suppose $C = 100 + 0.85Y$, $I = 100$ and $C = T = 100$. Find equilibrium level of national income. [4 marks]

(c) Define IS-LM model [5 marks]